Principal Markets

Products for companion animals are sold predominantly in the United States, the EU and Japan. In most other countries, sales of farm animal products dominate. The following table sets out 2001 total sales of our Animal Health products by region:

Animal Health	Sales 2001 (CHF millions)	(%)
United States	330	34
Americas (except the United States)	148	16
Europe	297	31
Rest of the World	187	19
Total	**962**	**100**

The animal health market is expected to grow slowly over the next few years due to relatively few new product launches with high sales potential in the companion animal segment, and food safety issues for farm animals. Some growth is expected from veterinary pharmaceuticals for companion animals and ecto-/endectoparasiticides products. Medicinal feed additives may be increasingly replaced. The trend towards consolidation in the animal health industry continues.

Performance in 2001 was below our expectations due to the economic slowdown and substantial inventory reductions at US companion animal veterinary clinics. In 2001 we encouraged veterinarians to "buy-as-you-need" instead of offering the traditional spring and fall campaigns during which large sales occurred. Foot-and-Mouth Disease had a negative impact, mainly in the UK. This was partly compensated by improved performance in the Latin American and Asia/Pacific countries as well as by the vaccine and aquaculture businesses which we acquired in 1999 and 2000.

Production

Approximately 80% of our production volume is manufactured by third parties, including Novartis affiliates in other business sectors. Several commodity products are produced at our Shanghai, China production site. Formulation facilities are located in France, China, the United Kingdom, Canada, Colombia, Taiwan, and Bangladesh.

Raw materials are sourced globally. We depend on suppliers to a large extent for the raw materials, intermediates and active ingredients. Price volatility is low due to defined transfer prices of final products supplied to the Sector.

Marketing and Distribution

Our products are predominantly prescription-only treatments for animals. The major distribution channels are veterinarians and wholesalers of veterinary products. Primary marketing efforts are targeted at veterinarians using such marketing tools as printed materials, direct mail, advertisements and articles in the veterinary special press, our participation at conferences for veterinarians and organization of special educational events. Our sales forces are active in over 40 countries. In addition, we engage in general public relations activities, including advertising in the general printed media and direct advertising of brand names where regulatory and legal restrictions allow it.

Competition

Our major competitors in both the companion and farm animal business are Bayer, Fort Dodge (a subsidiary of American Home Products), Intervet, Merial, Pfizer, and Schering-Plough. Most of our competitors offer a broad range of products for both companion and farm animals and their marketing efforts are comparable to ours in resources and tactics.

Research and Development

Novartis Animal Health has dedicated research facilities in Switzerland and Australia for antiparasitics. In the United States, UK and Canada, we focus on the development of new vaccines for farm animals and farmed fish. We devoted CHF 93 million, CHF 88 million and CHF 65 million to our Animal Health research and development in 2001, 2000, and 1999 respectively.

Based on high-capacity, in-vitro microscreens, high-throughput screening focuses on assessing a high number of natural products and synthetic chemicals. Our researchers collaborate with external partners to develop veterinary treatments. Drug delivery projects, also in collaboration with external partners, concentrate on the identification and development of suitable sustained release formulations for use in parasite control.

In addition to these research activities, we exploit synergies with other Novartis businesses to develop new products; products originally intended for human use are further developed to treat companion animals. The products Fortekor® and Clomicalm® are examples of effective synergies with Novartis Pharmaceuticals.

Regulation

The registration procedures for animal medicines are similar to those for human medicines. In the United States, animal health products are usually regulated by the Food and Drug Administration (FDA) and in certain cases by the Environmental Protection Agency (EPA). Within the FDA, the Center for Veterinary Medicine is responsible for animal drugs. A New Animal Drug Application for product registration must be accompanied by safety and clinical studies which support the safety and efficacy of the product, as well as information on manufacturing, quality control, environmental effects and labeling.

In the EU, veterinary medicinal products need marketing authorization from the competent authority of a member-state (national authorization) or through a community procedure, which is either the Centralized Procedure or the Mutual Recognition Procedure. In the former, applications are submitted to the EMEA, and the marketing authorization that is granted by the European Commission is then valid throughout the EU; in the latter, the marketing authorization granted by the first member-state is mutually recognized by the other member-states through a shortened approval procedure.

In Japan, veterinary medicinal products are approved by the Ministry of Agriculture Fisheries and Food ("MAFF"). The application is reviewed by the MAFF and a general investigational committee, a special investigational committee and a permanent investigational committee before authorization is granted.

Intellectual Property

The majority of our products are protected by patents and trademarks. It is our policy to seek the broadest possible protection for significant product developments in all major markets. Patents may cover products *per se*, product formulations, processes, intermediate products or product uses.

4.C Organizational Structure

The Novartis Group is a multinational group of companies specializing in research, development, manufacture, sales and distribution of innovative healthcare products. Novartis AG, our Swiss holding company, owns, directly or indirectly, 100% of all significant operating companies. For a list of our subsidiaries, see note 32 to the consolidated financial statements.

4.D Property, Plants and Equipment

Our principal executive offices are located in Basel, Switzerland. Our various businesses operate through a number of offices, research facilities and production sites.

It is our policy to own our facilities. A few (mainly in the United States) are leased under long-term leases. Some of our principal facilities are subject to mortgages and other security interests granted to secure indebtedness to certain financial institutions. As of December 31, 2001, the total amount of indebtedness secured by these facilities was not material to the Group. We believe that our production plants and research facilities are well maintained and generally adequate to meet our needs for the foreseeable future.

The following table sets forth our major production and research facilities. For a further description of our material facilities, see "—4.B Business Overview," and the sections entitled "—Production" and "—Research and Development" included within the discussions of each of our business segments.

Location/Sector	Size of Site	Major Activity
Major Production facilities:		
Pharmaceuticals		
Taboão da Serra, Brazil	539,000 square meters	Suppositories, capsules, tablets, syrups, suspensions, creams, drop solutions, powders
Ringaskiddy, Ireland	532,000 square meters	Drug substances, intermediates
Basel, Switzerland—Klybeck	283,000 square meters	Drug substances, intermediates
Basel, Switzerland—St. Johann	219,000 square meters	Drug substances, intermediates
Basel, Switzerland—Schweizerhalle	213,000 square meters	Drug substances, intermediates
Stein, Switzerland	345,000 square meters	Steriles, tablets, capsules, transdermals, intermediates
Grimsby, United Kingdom	929,000 square meters	Drug substances, intermediates
Suffern, NY (United States)	656,000 square meters	Tablets, capsules, transdermals
Horsham, United Kingdom	105,000 square meters	Tablets, capsules
Wehr, Germany	113,000 square meters	Tablets, creams, ointments
Huningue, France	412,000 square meters	Creams, ointments, ampoules, suppositories
Sasayama, Japan	104,000 square meters	Suppositories, capsules, tablets, syrups, suspensions, creams, drop solutions, powders
Generics		
Kundl, Austria	266,000 square meters total area (production and R&D facilities)	Biotech products, intermediates, active drug substances, final steps (finished pharmaceuticals)
Broomfield, CO (United States)	60,000 square meters	Pharmaceutical production of a broad range of finished dosage forms.
Consumer Health		
Fremont, MI (United States)	512,500 square meters	Gerber® jarred baby food, fruit and vegetable juices, dry boxed cereal
Nyon, Switzerland	58,400 square meters (production and R&D facilities)	Liquids and Creams (Otrivin®, Fenistil®, Zymaflour®)
Lincoln, NE (United States)	1,721,200 square meters	Triaminic®, Maalox® and Tavist®
Rzeszow, Poland	1,780,000 square meters	Gerber® baby food, Frugo® drinks, Bobo® fruit juice

Location/Sector	Size of Site	Major Activity
CIBA Vision		
Pulau Batam, Indonesia	16,700 square meters	Contact lenses
Duluth, GA United States	16,700 square meters	Molding of contact lenses
Des Plaines, IL (United States)	12,100 square meters	Freshlook® product line
Grosswallstadt, Germany	19,000 square meters	Contact lenses
Cidra, Puerto Rico	124,000 square meters	Contact lenses
Toronto, Canada	145,000 square meters	LCP production
Animal Health		
WUSI-Farm, China	42,000 square meters	Insecticides, antibacterials, acaricides, powders
Dundee, Scotland	34,000 square meters	Packaging, formulation liquids, solids, creams, sterile filling vaccines
Major Research and Development facilities:		
Pharmaceuticals		
East Hanover, NY (United States)	769,000 square meters	General
Summit, NJ (United States)(1)	356,000 square meters	General
Basel, Switzerland—Klybeck	283,000 square meters	General
Basel, Switzerland—St. Johann	219,000 square meters	General
Vienna, Austria	39,000 square meters	Dermatology and infectious diseases
Horsham, UK	105,000 square meters	Respiratory disease
Generics		
Kundl, Austria	266,000 square meters total area (production and R&D facilities)	Development of new biotech processes, innovations in antibiotic-technologies
Kolshet, India	5,000 square meters	Development of new formulations for generic pharmaceuticals
Dayton, NJ (United States)	29,000 square meters	Development of new formulations for generic pharmaceuticals
Consumer Health		
Nyon, Switzerland	58,400 square meters (production and R&D facilities)	Over-the-Counter
CIBA Vision		
Duluth, GA (United States)	9,000 square meters	General
Animal Health		
St. Aubin, Switzerland	9,000 square meters	Parasiticides

(1) The Summit, NJ site has been sold to a third party. We have leased the site back from the buyer until March 2003. All site operations will be moved to other Group sites prior to that date.

Environmental Matters

We integrate core values of environmental protection into our business strategy to add value to the business, manage risk and enhance our reputation.

We are subject to laws and regulations concerning the environment, safety matters, regulation of chemicals and product safety in countries where we manufacture and sell our products or otherwise operate our business. These requirements include regulation of the handling, manufacture, transportation,

use and disposal of materials, including the discharge of pollutants into the environment. In the normal course of our business, we are exposed to risks relating to possible releases of hazardous substances into the environment which could cause environmental or property damage or personal injuries and which could require remediation of contaminated soil and groundwater. Under certain laws, we may be required to remediate contamination at certain of our properties regardless of whether the contamination was caused by us, or by previous occupants of the property.

We believe we are in substantial compliance with environmental, health and safety requirements applicable to us. We are committed to providing safe and environmentally sound workplaces that will not adversely affect the health or environment of employees or the communities in which we operate. We believe we have obtained all material environmental permits required for the operation of our facilities as well as all material authorizations required for products produced by us. We believe that we are not currently subject to liabilities for non-compliance with applicable environmental, health and safety laws that would materially and adversely affect our business, financial condition or results of operations, although there is a risk that legislation enacted in the future could create liabilities for past activities undertaken in compliance with then current laws and regulations or that there is environmental or other damage of which we are not aware.

In recent years, the operations of all companies have become subject to increasingly stringent legislation and regulation related to occupational safety and health, product registration and environmental protection. Such legislation and regulations are complex and constantly changing, and there can be no assurance that future changes in laws or regulations would not require us to install additional controls for certain of our emission sources, to undertake changes in our manufacturing processes or to remediate soil or groundwater contamination at facilities where such clean-up is not currently required. Some of our facilities are over 50 years old, and there may be soil and groundwater contamination at such facilities. However, based on current information, we do not believe that expenditures related to such possible contamination, beyond those already accrued, will be significant.

Our expenditures, excluding Agribusiness, related to capital investments for environmental, health and safety compliance measures were approximately CHF 56 million in 2001 (CHF 12 million for environment), CHF 55 million in 2000 (CHF 20 million for environment), CHF 50 million in 1999 (CHF 28 million for environment). While we cannot predict with certainty our aggregate capital environmental investments in 2002, based on current information and existing assets, we estimate that such aggregate expenditures will be comparable to the 2001 figure.

It is difficult to estimate the future costs of environmental protection and remediation because of many uncertainties, including uncertainties about the state of laws, regulations and information related to individual locations and sites. However, given our experience to date regarding environmental matters and the facts currently known, we believe that compliance with existing and known national and local environmental laws and regulations will not have a material effect on our total capital expenditures, earnings or competitive position.

Item 5. Operating and Financial Review and Prospects

5.A Operating Results

The following operating and financial review and prospects should be read in conjunction with our consolidated financial statements included in this Form 20-F. The consolidated financial statements and the financial information discussed below have been prepared in accordance with IAS. For a discussion of the significant differences between IAS and US GAAP, see "Item 18. Financial Statements—note 33."

Overview

We are a world leader both in sales and in innovation in our continuing core businesses: pharmaceuticals, generics, consumer health, eyecare products and medicines and animal health, with global sales of CHF 32.0 billion in 2001. We aim to hold a leadership position in all of our businesses.

Novartis AG was formed in 1996 out of a merger of two global participants in the pharmaceutical and agrochemical industries, Sandoz AG and CIBA-Geigy AG. Accounting for the merger under IAS was based on a uniting of interests and therefore did not result in any goodwill nor in any goodwill amortization. Under US GAAP, the Merger is accounted for as a purchase of CIBA-Geigy AG by Sandoz AG. For a discussion of the significant differences between IAS and US GAAP purchase accounting, see "Item 18. Financial Statements—note 33." In November 2000, we spun-off and merged our Crop Protection and Seeds businesses with AstraZeneca's Zeneca Agrochemicals to create Syngenta.

Factors affecting results

The global healthcare market is growing rapidly due to, among other reasons, the aging population in developed countries, unmet needs in many therapeutic areas (such as cancer and cardiovascular disease), the adoption of more industrialized lifestyles in emerging economies, and increased consumer demand fueled by broad and rapid access to information. At the same time, the healthcare industry is coming under pricing pressures as costs come under closer scrutiny by payers, both public and private.

Our revenues are directly related to our ability to identify high performing products while they are still in development and to market them quickly and effectively. Research and development takes on crucial importance in this environment, as we, like our competitors, search for efficacious and cost-efficient pharmaceutical solutions to health problems. The need for increased resources in order to take advantage of the full range of new research and development technologies has been among the reasons for the consolidation which has taken place across the industry, and also has spawned the growing number of collaborative relationships between leading companies and niche players at the forefront of their particular technology areas. The growth in new technology, particularly genomics, will almost certainly have a fundamental impact on the pharmaceutical industry as a whole and upon our future development.

The competitive conditions in the pharmaceutical industry have intensified as a result of regulation, price reductions, reference prices, parallel imports, higher patient co-payments and increased pressure on physicians to limit prescribing. In the future, pressure on our Pharmaceuticals sector and other pharmaceutical companies to lower prices is expected to increase. The pressure on prices is influenced primarily by the following factors: government actions that reduce patient and physician reimbursement, restrict physicians' prescribing levels, increase the use of generic products and impose overall mandatory price cuts; the introduction of new, technologically innovative products and devices by competitors; and growing parallel imports, mainly in the EU. Parallel imports affect our Pharmaceuticals sector results because products sold in low-priced countries are re-exported to high-priced countries thereby reducing direct sales to those countries. See "Item 4. Information on the Group—4.A Business Overview—Pharmaceuticals—Price Controls."

Exchange rate exposure also affects our results because we have both sales and cost exposure in many currencies other than the Swiss franc, giving rise to both transaction and translation exposure when results and foreign subsidiary balance sheets are translated into our Swiss franc consolidated financial statements. See "Exchange Rate Exposure and Risk Management" below. Inflation has not had a significant impact on our results.

Critical Accounting Policies

Our main accounting policies are set out in note 1 of our consolidated financial statements and conform with IAS (International Accounting Standards). We believe our more significant judgments and estimates used in preparation of our consolidated financial statements could affect the accounting in the following areas. Actual results may differ from these estimates under different assumptions or conditions.

We review our long lived assets for impairment, including identifiable intangibles and goodwill, whenever events or changes in circumstance indicate that the carrying amount of the asset may not be recoverable. In order to assess if there is any impairment, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of such expected discounted future cash flows is less than the carrying amount of the asset, we will recognize an impairment loss for the amount by which the asset's net book value exceeds its fair market value. For purposes of assessing

impairment, we group our assets at the lowest level for which there are separately identifiable cash flows. Fair value can be based on sales of similar assets, or other estimates of fair value such as discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual outcomes could vary significantly from such estimates. Factors such as changes in the planned use of buildings, machinery or equipment or closing of facilities or lower than anticipated sales for products with capitalized rights could result in shortened useful lives or impairment.

We have investments in associated companies (generally investments of between 20% and 50% in a company's voting shares) that are accounted for by using the equity method. Due to the various estimates that have been made in applying the equity method, the amounts recorded in the consolidated financial statements in respect of Roche Holding Ltd and Chiron Corporation may require adjustments in the following year as more financial and other information becomes publicly available.

We sponsor pension and other retirement plans in various forms covering employees who meet eligibility requirements. These plans cover the majority of our employees. Several statistical and other factors which attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases as determined by us, within certain guidelines. In addition, our actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate these factors. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension income or expense recorded by us. Based on information currently available to us it is expected that the pension income for 2002 will not be materially different from the 2001 amount.

We have provisions for environmental remediation costs. The material components of the environmental provisions consist of a risk assessment based on investigation of the various sites. Our future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation, the percentage of waste material attributable to Novartis at the remediation sites relative to that attributable to other parties, and the financial capabilities of the other potentially responsible parties. We believe that such costs will not materially affect our consolidated financial position, results of operations or cash flow.

A number of our subsidiaries are subject to litigation arising out of the normal conduct of their businesses, as a result of which claims could be made against them which might not be covered by insurance. We believe that the outcomes of such actions will not materially affect our consolidated financial position, results of operations or cash flow.

In 2002, we will continue to amortize goodwill under IAS even though for US GAAP purposes we will cease to amortize goodwill in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." SFAS 142 requires us to perform an initial review of our US GAAP goodwill for impairment in 2002 and an annual impairment review thereafter. We intend to perform a similar review of our IAS goodwill. We currently do not expect a material impairment charge; however there can be no assurance that at the time the review is completed a material impairment charge will not be recorded.

Results of Operations

The following table sets forth selected income statement data for each of the periods indicated.

	Year ended December 31,			
	2001	2000[(1)]	2000	1999
	(CHF millions)	(CHF millions)	(CHF millions)	(CHF millions)
Sales to third parties				
Pharmaceuticals	20,181	18,150	17,611	15,275
Generics	2,433	1,973	1,938	1,823
Consumer Health—ongoing	6,675	6,514	6,395	5,570
Divested Consumer Health activities				182
CIBA Vision	1,787	1,392	2,085	1,632
Animal Health	962	1,083	1,083	927
Sales from continuing activities	**32,038**	**29,112**	**29,112**	**25,409**
Sales from discontinued Agribusiness activities[(2)]		6,693	6,693	7,056
Group sales	**32,038**	**35,805**	**35,805**	**32,465**
Sales from continuing activities	**32,038**	**29,112**	**29,112**	**25,409**
Cost of goods sold	(7,886)	(7,316)	(7,316)	(6,647)
Marketing and distribution	(11,098)	(9,556)	(9,556)	(7,786)
Research and development	(4,189)	(4,011)	(4,011)	(3,515)
Administration and general overheads	(1,588)	(1,502)	(1,502)	(765)
Operating income from continuing activities	**7,277**	**6,727**	**6,727**	**6,696**
Operating income from discontinued activities[(2)]		1,156	1,156	647
Group Operating income	**7,277**	**7,883**	**7,883**	**7,343**
Operating income by sectors				
Pharmaceuticals	5,677	5,401	5,403	4,676
Generics	281	242	227	347
Consumer Health—ongoing	920	869	824	807
Divested Consumer Health activities				375
CIBA Vision	174	100	158	250
Animal Health	138	179	179	216
Corporate and other expenses	87	(64)	(64)	25
Operating income from continuing activities	**7,277**	**6,727**	**6,727**	**6,696**
Income from associated companies	139	97	97	376
Financial income, net	1,067	1,216	1,216	990
Taxes	(1,440)	(1,504)	(1,504)	(1,683)
Minority interests	(19)	(25)	(25)	(20)
Net income from continuing activities	**7,024**	**6,511**	**6,511**	**6,359**
Operating income, income from associated companies, financial income, taxes and minority interest of discontinued Agribusiness sector[(2)]		699	699	300
Group net income	**7,024**	**7,210**	**7,210**	**6,659**

(1) 2000 sector reporting has been restated to reflect the transfer as of January 1, 2001 of the Ophthalmics business from CIBA Vision to the Pharmaceuticals sector and the switch of certain products between sectors.

(2) Agribusiness: Crop Protection and Seeds businesses.

2001 Compared to 2000

Overview

The following compares our results in the year ended December 31, 2001 to those of the year ended December 31, 2000. All 2000 information has been restated to reflect the transfer as of January 1, 2001 of the Ophthalmics business from CIBA Vision to the Pharmaceuticals sector and the switch of certain products between sectors. In addition, the results of operations from continuing activities for the year ended December 31, 2000 has been restated to exclude the discontinued Novartis Agribusiness sector.

In Swiss francs, our sales in 2001 increased by 10% over 2000 to CHF 32.0 billion (14% in local currencies); our operating income increased by 8% to CHF 7.3 billion; our net income increased by 8% to CHF 7.0 billion; and our free cash flow (excluding acquisitions of subsidiaries, of 21.3% of the voting shares of Roche Holding Ltd and of marketing and product rights) increased by 25% in Swiss francs to CHF 4.1 billion. 47% of our sales were generated in the NAFTA region (43% in the United States), 32% in Europe and 21% in the rest of the world.

Growth from our continuing activities was driven by an 8% increase in our sales volume. All of our sectors except for Generics benefited from price increases which in total amounted to 2%. The sales increase due to the acquisition of new products and subsidiaries was 4%. Our sales performance in Swiss francs suffered from a 4% unfavorable currency effect as the Swiss franc rose against the yen by an average of 12% and against the Euro by 3%.

Overall, Pharmaceuticals accounted for 63% of our total sales. Of the remaining businesses, Generics contributed 7% of our total sales, Consumer Health 21%, CIBA Vision 6% and Animal Health 3%.

Our operating margin from continuing activities in 2001 was 22.7% of sales, a decrease of 0.4 percentage points compared with 2000 (23.1%). Although our cost of goods sold (+8%) and research and development expenses (+4%) increased at a lower rate than sales, our marketing and distribution expenses (+16%) increased at a significantly higher rate than did our sales. Overall, our marketing and distribution expenses reached 35% of sales (2000: 33% of sales). This was due to investments associated with sales force enhancements and new product launches, particularly in Pharmaceuticals. Our research and development expenses as a percentage of sales fell slightly in 2001 to 13.1% from 13.8% in 2000, primarily because of the strong growth in our sales.

Sales

The following table sets forth selected sales data for each of the periods indicated.

	Year ended December 31,			
	2001	**2000**	**Change in CHF**	**Change in local currencies**
	(CHF millions)	(CHF millions)	(%)	(%)
Sales				
Pharmaceuticals	20,181	18,150[1]	11	15
Generics	2,433	1,973[1]	23	26
Consumer Health	6,675	6,514[1]	2	4
CIBA Vision	1,787	1,392[1]	28	33
Animal Health	962	1,083	(11)	(7)
Sales from continuing activities	**32,038**	**29,112**	**10**	**14**
Sales from discontinued Agribusiness activities[2]		6,693	—	—
Group sales	**32,038**	**35,805**	**(11)**	**(8)**

(1) Restated to reflect the transfer as of January 1, 2001 of the Ophthalmics business from CIBA Vision to the Pharmaceutical sector and the switch of certain products between sectors.

(2) Agribusiness: Crop Protection and Seeds businesses spun-off on November 6, 2000.

Sales from continuing activities

Pharmaceuticals. Sales increased by 11% in Swiss francs or by 15% in local currencies to CHF 20.2 billion in 2001 from CHF 18.2 billion in 2000. In the United States, where 43% of turnover was generated, sales increased by 24% reaching CHF 8.6 billion. This performance was driven by numerous product launches, particularly in the United States, most notably Glivec®/Gleevec™ (chronic myeloid leukemia), which achieved sales of CHF 257 million in less than 8 months. As a result of the Glivec®/ Gleevec™ launch, oncology product sales expanded by 28% in local currencies. Acquisitions, principally Famvir® (antivirals), which was acquired late in 2000, contributed 2% to the sector's sales growth. Continued marketing focus on key products such as Diovan®/Co-Diovan® (hypertension), Lotrel® (hypertension), Lamisil® (fungal infections) and Exelon® (Alzheimer's) was also a major factor in the sales growth.

Diovan®/Co-Diovan® (hypertension) surpassed Sandimmun®/Neoral® (transplantation) as our best-selling product in 2001 with CHF 1.9 billion in sales (+58% in local currencies). Diovan®, an angiotensin-2 receptor blocker, took the leadership position in new prescriptions from Cozaar® (the competitor product by Merck) in the United States. Diovan® is the only drug of its class to have shown a clinical benefit with regard to heart failure. We have received an approvable letter from the US FDA for this indication.

Lotrel® (hypertension), another key product in the cardiovascular therapeutic area, continued to expand its share of new prescriptions in its sector to 22%, and achieved sales of CHF 813 million, which was an increase of 48% in local currencies. Lotrel® sales were also the key driver behind the performance of the Cibacen® group which achieved total sales of CHF 1.5 billion, an increase over last year of 22% in local currencies.

The decline in sales due to generic erosion or new competition continued to be limited for both Sandimmun®/Neoral® (−7% in local currencies) and Voltaren® (−8% in local currencies). Sandimmun®/Neoral® achieved sales of CHF 1.8 billion and Voltaren® of CHF 1.1 billion.

Aredia® (bone metastasis) expanded beyond last year's sales and reached CHF 1.3 billion, although the first competing generic products entered the market at the beginning of December. Our follow-on product Zometa® received approval during 2001 both in Europe and in the United States for its first indication, hypercalcemia of malignancy, and received approval during 2002 in the US for bone metastasis, its second indication. An application for approval for this second indication is pending in Europe. We expect our combined Aredia®/Zometa® sales to decline slightly in 2002, since Zometa® is not yet likely to fully compensate for the anticipated decline in Aredia® sales.

Overall, Pharmaceuticals' top ten products reached total sales of CHF 12.0 billion reflecting an increase of 13% in local currencies. Pharmaceuticals' top twenty products expanded sales by 19% in local currencies to CHF 15.6 billion.

Top 20 Pharmaceutical Products—2001

Brands	Therapeutic Area	United States	% change in local currencies	Rest of the World	% change in local Currencies	Total	% change In CHF	% change In local currencies
		(CHF m)		(CHF m)		(CHF m)		
Diovan®/Co-Diovan®	Hypertension	943	47	937	70	1,880	53	58
Sandimmun®/Neoral®	Transplantation	525	(20)	1,304	(2)	1,829	(11)	(7)
Cibacen®/Lotensin®	Hypertension	1,309	28	209	(7)	1,518	21	22
(of which Lotrel®)		*813*	*48*	—	—	*813*	*47*	*48*
Lamisil® (group)	Fungal infections	730	22	675	16	1,405	(15)[1]	19
Aredia® (group)	Cancer complications	835	17	435	12	1,270	13	15
Voltaren®	Inflammation/pain	24	(51)	1,042	(7)	1,066	(15)[1]	(8)
Sandostatin® (group)	Acromegaly	343	38	473	20	816	23	26
Lescol®	Cholesterol reduction	388	15	426	18	814	12	17
Miacalcic®	Osteoporosis	443	(6)	264	10	707	(2)	0
Tegretol®	Epilepsy	263	9	420	(4)	683	(3)	1
Top ten products		**5,803**	**17**	**6,185**	**10**	**11,988**	**9**	**13**
Leponex®/Clozaril®	Schizophrenia	229	(16)	310	5	539	(8)	(5)
Estraderm® (group)	Hormone replacement	221	30	263	(7)	484	5	6
Exelon®	Alzheimer's disease	219	158	184	65	403	100	104
Foradil®	Asthma	17	—	373	16	390	18	21
Visudyne™	Wet form of age-related macular degeneration	238	114	139	154	377	123	127
Famvir® (group)	Antivirals	244	NA	79	NA	323	NA	NA
Nitroderm® TTS	Heart disease	3	(55)	317	(3)	320	(11)	(4)
Zaditen®	Asthma, allergy	—	—	265	(6)	265	(16)	(6)
Glivec®/Gleevec™	Chronic myeloid leukemia Leukemia	176	NA	81	NA	257	NA	NA
Trileptal®	Epilepsy	170	129	80	36	250	84	87
Top twenty total		**7,320**	**29**	**8,276**	**12**	**15,596**	**15**	**19**
Rest of portfolio		1,316	4	3,269	4	4,585	(1)	4
Total		**8,636**	**24**	**11,545**	**10**	**20,181**	**11**	**15**

NA Not applicable as insignificant or non-existent prior year sales.

(1) Restated based on 2000 sales after switches to other sectors.

Generics. Sales increased by 23% in Swiss francs or by 26% in local currencies to CHF 2.4 billion from CHF 2.0 billion in 2000. Strategic acquisitions completed in early 2001 in the United States, Argentina, the UK and Germany account for 20 percentage points of this increase. In the United States (32% of sales), sales increased by 39% in local currency (4% excluding acquisitions) as a result of reorganization initiatives, the successful integration of the Apothecon acquisition, and the launch of a generic version of Eli Lilly's Prozac® (fluoxetine). Generics' US affiliate, Geneva Pharmaceuticals, holds 6-month exclusivity rights to commercialize the 10 mg capsule formulation of fluoxetine.

Our Generics Pharmaceuticals Business (for finished pharmaceutical products) achieved a sales increase of 39% in Swiss Francs due to acquisitions, product launches and the global roll-out of the generic version of the combination of amoxicillin and clavulanic acid.

Our Industrial Business (active pharmaceutical ingredients and biotech substances) grew by 6% in Swiss francs as a result of focused efforts in high quality intermediates and the expansion of the biotechnology business.

Consumer Health. Sales increased by 2% in Swiss francs or 4% in local currencies, to CHF 6.7 billion in 2001 from CHF 6.5 billion in 2000. In the United States, sales reached CHF 3.3 billion (49% of the sector's total sales), reflecting an increase of 4% in local currencies despite the economic slowdown.

Sales of over-the-counter medicines (OTC) rose 5% in local currencies (2% in Swiss francs) driven by the key brands Nicotinell™/Habitrol® (smoking cessation), Voltaren® Emulgel™ (topical pain relief) and Lamisil® Cream (antifungal).

Medical Nutrition sales increased by 11% in local currencies (9% in Swiss francs) driven by growth in the Home Care market, a strong performance in Europe, and a strong second half in the United States.

Health and Functional Nutrition sales were up 3% in local currencies (2% in Swiss francs), as solid sales from France and the UK offset a decline in the juice business in Poland. In addition, Gerber® reached a new record market share with 75.9% in the US baby/toddler food segment, while Gerber® Care and Gerber® Wellness products continued to make progress in a competitive marketplace. On February 4, 2002, we announced our intention to divest the Health and Functional Foods portion of this business, while retaining the Infant and Baby Business, including Gerber®.

CIBA Vision. Sales increased by 28% in Swiss francs, or 33% in local currencies, to CHF 1.8 billion in 2001 from CHF 1.4 billion in 2000. Excluding the impact of the Wesley Jessen acquisition, sales increased by 5% in local currencies. The innovative Focus® range of lenses, led by Focus® Dailies and Focus® Night & Day™, and the acquired FreshLook® brand of cosmetic lenses, were drivers of sales growth. Focus® Night & Day™ also became the first high-oxygen extended wear contact lens for up to 30 nights of continuous wear to receive US FDA approval. Innovative product launches including Aosept® Plus/Aosept® Clear Care and SOLO-care® Plus, as well as upcoming specialty lens product developments, are aimed at addressing the overall declining lens care and specialty lens markets.

Animal Health. Sales fell by 11% in Swiss francs, or 7% in local currencies, to CHF 962 million in 2001 from CHF 1.1 billion in 2000, as the companion animal market in the U.S suffered from inventory reductions at the veterinary clinic level and competitive pressures in the flea product market continued. The farm animal business saw a flat performance as the impact of the foot-and-mouth disease crisis in Europe was felt. The acquired vaccine and aquaculture businesses grew sales, but these businesses are at present too small to offset these events.

Discontinued Agribusiness sector. Agribusiness was only included in our Group figures up to its spin-off on November 6, 2000.

Expenses

The following table sets forth our operating expenses for each of the periods indicated.

	Discontinued activities	Continuing activities	Group
	(CHF millions)	(CHF millions)	(CHF millions)
2001			
Cost of goods sold		(7,886)	(7,886)
Marketing and distribution		(11,098)	(11,098)
Research and development		(4,189)	(4,189)
Administration and general overheads		(1,588)	(1,588)
2000			
Cost of goods sold	(2,926)	(7,316)	(10,242)
Marketing and distribution	(1,389)	(9,556)	(10,945)
Research and development	(646)	(4,011)	(4,657)
Administration and general overheads	(576)	(1,502)	(2,078)

The following table set forth our continuing operating expenses for each of the periods indicated.

	Year ended December 31, 2001	2000	Change
	(CHF millions)	(CHF millions)	(%)
Sales from continuing activities	**32,038**	**29,112**	**10**
Cost of goods sold	(7,886)	(7,316)	8
Marketing and distribution	(11,098)	(9,556)	16
Research and development	(4,189)	(4,011)	4
Administration and general overheads	(1,588)	(1,502)	6
Operating income from continuing activities	**7,277**	**6,727**	**8**

Cost of goods sold

Our cost of goods sold for continuing activities decreased as a percentage of our sales from 25.1% in 2000 to 24.6% in 2001. This was mainly due to continued improvements in productivity and product mix in Pharmaceuticals.

Marketing and distribution

Our marketing and distribution expenses for continuing activities as a percentage of our sales increased from 32.8% in 2000 to 34.6% in 2001 as significant investments were made in the Pharmaceuticals field force and in promotional activities to support key products.

Research and development

Our research and development expenses for continuing activities as a percentage of our sales were 13.1% in 2001 compared to 13.8% in 2000. This is primarily the result of strong growth in Pharmaceuticals' sales.

Administration and general overheads

The costs of implementing state-of-the-art information technology systems in Pharmaceuticals and other sectors led to an increase in our administration and general overheads by 5.7%. As a percentage of sales from continuing activities, however, there was a fall in administration and general overheads to 5.0% in 2001 from 5.2% in 2000.

Operating Income

The following table sets forth selected operating income data for each of the periods indicated.

	2001	2000	Change
	(CHF millions)	(CHF millions)	(%)
Pharmaceuticals	5,677	5,401[1]	5
Generics	281	242[1]	16
Consumer Health	920	869[1]	6
CIBA Vision	174	100[1]	74
Animal Health	138	179	(23)
Corporate and other income/expense	87	(64)	
Operating income from continuing activities	**7,277**	**6,727**	**8**
Operating income from discontinued Agribusiness activities[2]	—	1,156	
Group operating income	**7,277**	**7,883**	**(8)**

[1] 2000 sector reporting has been restated to reflect the transfer as of January 1, 2001 of the Ophthalmics business from CIBA Vision to the Pharmaceuticals sector and the switch of certain products between sectors.

[2] Agribusiness: Crop Protection and Seeds businesses.

Operating income from continuing activities

Our operating margin on continuing activities was 22.7% of our sales, a decrease of 0.4 percentage points compared with 2000 (23.1%).

Pharmaceuticals. Operating income increased 5% to CHF 5.7 billion in 2001 from CHF 5.4 billion in 2000. Operating margin fell by 1.7 percentage points to 28.1% in 2001, due to a 24% increase in marketing and distribution expenses, which now represent almost 36% of sales, compared to 32% in 2000 as field force and promotion activities were increased due to new product launches. The operating income also includes a charge of CHF 216 million for impairment of pitavastatin marketing rights which were written down from their initial value of CHF 722 million. Research and development expenses fell slightly as a percentage of sector sales, to 17% of sales compared to 18% in 2000, even though the actual amount increased by 4% in Swiss franc terms. Additional productivity improvements also were achieved reducing the cost of goods sold as a percentage of sales.

Generics. The sector had an operating income of CHF 281 million in 2001, an increase of 16% compared with CHF 242 million in 2000. The operating margin declined from 12.3% in 2000 to 11.5% in 2001 due to several factors. These included integration costs associated with completing several acquisitions during the year; increased price pressure, especially in the United States; costs related to legal actions in the United States; and stepped-up investment in marketing.

Consumer Health. Operating income increased by 6% from CHF 869 million in 2000 to CHF 920 million in 2001. Operating margins rose from 13.3% in 2000 to 13.8% in 2001, despite a CHF 21 million restructuring charge resulting from a 2001 closure of a UK production site. Marketing and distribution expenses as a percentage of sales decreased slightly in 2001 as compared to 2000. Research and development expense remained at 3% of sales. Cost of goods sold remained stable in 2001, in percentage of sales terms.

CIBA Vision. Operating income increased by 74% from CHF 100 million in 2000 to CHF 174 million in 2001 and operating margin increased from 7.2% in 2000 to 9.7% in 2001. The 2001 operating income includes the impact of the Wesley Jessen business on revenue and costs for the full twelve months of 2001 compared to only three months in 2000. On a comparable basis, excluding exceptional integration costs related to the acquisition of Wesley Jessen of CHF 34 million (2000: CHF 110 million), operating income decreased slightly by 1% from CHF 210 million in 2000 to CHF 208 million in 2001, and the operating margin declined from 15.1% in 2000 to 11.6% in 2001, principally due to goodwill charges.

Animal Health. Operating income fell by 23% from CHF 179 million in 2000 to CHF 138 million principally due to the significantly reduced level of sales, particularly in the companion animal business. The sector's operating margin also declined from 16.5% in 2000 to 14.3% in 2001, principally due to a decline in US sales in the higher-margin companion animal business.

Corporate and Other Income/Expense

Corporate and other income/expense include the costs of corporate and country management, offset by employee benefit, share and share option plan charges levied on the operating companies and credited to corporate other income. In 2001, Corporate and other income/expense achieved a net income of CHF 87 million, compared with a net expense of CHF 64 million in 2000, principally due to higher share and share option charges to sector companies.

Net income

The following table sets forth selected income statement data for the periods indicated.

	Discontinued activities (CHF millions)	Continuing activities (CHF millions)	Group (CHF millions)
2001			
Operating income		**7,277**	**7,277**
Income from associated companies		139	139
Financial income, net		1,067	1,067
Taxes		(1,440)	(1,440)
Minority interests		(19)	(19)
Net income		**7,024**	**7,024**
2000			
Operating income	**1,156**	**6,727**	**7,883**
Income from associated companies	1	97	98
Financial income, net	(125)	1,216	1,091
Taxes	(316)	(1,504)	(1,820)
Minority interests	(17)	(25)	(42)
Net income	**699**	**6,511**	**7,210**

Net Income from continuing activities

The following table sets forth selected income statement data from continuing activities for the periods indicated.

	2001 (CHF millions)	2000 (CHF millions)	Change (%)
Operating income from continuing activities	**7,277**	**6,727**	**8**
Income from associated companies	139	97	43
Financial income, net	1,067	1,216	(12)
Income before taxes and minority interests	**8,483**	**8,040**	**6**
Taxes	(1,440)	(1,504)	(4)
Income before minority interests	**7,043**	**6,536**	**8**
Minority interests	(19)	(25)	(24)
Net income from continuing activities	**7,024**	**6,511**	**8**

Income from associated companies

We account for income from our associated companies using the equity method where we own between 20% and 50% of the voting shares of such companies. In 2001, income from associated companies was mainly derived from our stakes in Roche Holding Ltd (Roche) and in Chiron Corporation (Chiron).

Our ownership of 21.3% of Roche voting shares, which represents a 4% interest in the total Roche voting and non-voting equity instruments, was acquired in the first half of 2001. The income statement effect after taking into account the required charges due to additional depreciation and amortization arising from allocating the purchase price to tangible and intangible assets and goodwill, resulted in a pre-tax loss of CHF 39 million. Our ownership of 41.9% of Chiron shares resulted in pre-tax income of CHF 185 million (2000: CHF 97 million).

Our share of the net income of both Roche and Chiron is based upon analysts' estimates of their net income for the full year 2001. Any differences between these estimates and actual results will be recorded in 2002. In 2001, our income statement includes five quarters of results for Chiron, including an estimate of Chiron's fourth quarter results. Up to 2000, income from Chiron was included in our financial statements with a three month lag, with only the four quarters through to September 30 of the year being consolidated.

Financial income/expense, net

We realized financial income, net from continuing activities of CHF 1.1 billion in 2001 despite difficult market conditions. This result was achieved through successful management of liquid funds and a gain from the sale of US dollar denominated bonds. Our 2001 financial income was CHF 149 million lower than the CHF 1.2 billion achieved in 2000. The 2000 figure excludes CHF 125 million of interest expense which was allocated to the discontinued Agribusiness activity, because it related to the debt which was transferred to Syngenta on its spin-off.

Interest income from our investments fell from CHF 1.0 billion in 2000 to CHF 639 million in 2001 due to lower interest rates and less liquidity. Interest expense fell slightly from CHF 385 million in 2000 (excluding CHF 125 million allocated to Agribusiness) to CHF 367 million in 2001.

Increased capital gains realized from our sale of US dollar bonds and from other sources contributed an additional CHF 359 million to our financial results. The net result from our financial derivative transactions (mainly options and forward contracts) improved by CHF 405 million, largely as a result of our management of liquid funds. We do not write uncovered options, so a large part of our net derivative expense is compensated by gains on the underlying assets.

The financial impact from the different currencies held by our affiliates changed from a gain of CHF 329 million in 2000 to a loss of CHF 118 million in 2001. This change was largely the result of major currency losses during 2001 from the currency devaluations in Turkey and Brazil.

Taxes

Our 2001 tax charge on continuing activities was 4% less in 2001 than in 2000. Our 2001 tax charge totaled CHF 1.4 billion as compared to the 2000 tax charge on continuing activities of CHF 1.5 billion (excluding CHF 316 million allocated to the discontinued Agribusiness activities). Taxes on our continuing activities as a percentage of income before tax were reduced to 17.0% compared with 18.7% in 2000. This is due to a change in the geographic mix of taxable income.

Net income

Net income from our continuing activities as a percentage of our total sales decreased slightly from 22.4% in 2000 to 21.9% in 2001. This decrease was principally due to profit margin declines in some of our businesses and to lower financial income.

2000 Compared to 1999

Overview

The following compares the results of the year ended December 31, 2000 to those of the year ended December 31, 1999, but do not reflect the transfer as of January 1, 2001 of the Ophthalmics business from CIBA Vision to the Pharmaceuticals sector and the switch of certain products between sectors.

In Swiss francs, our sales in 2000 increased by 10% over 1999 to CHF 35.8 billion, operating income by 7% to CHF 7.9 billion, net income by 8% to CHF 7.2 billion, and free cash flow (excluding acquisitions of subsidiaries and product rights) by 28% in Swiss francs to CHF 4.5 billion.

The 2000 figures include the discontinued Novartis Agribusiness sector only up to November 6, 2000, the date it was spun-off.

Results of operations from ongoing activities not only exclude the Novartis Agribusiness sector but also, in 1999, the divested Novartis Consumer Health business.

In Swiss francs, our sales from ongoing activities in 2000 grew by 15% to CHF 29.1 billion, and operating income grew by 6% to CHF 6.7 billion.

The operating margin from ongoing activities in 2000 was 23.1% of sales, a decrease of 2 percentage points compared with 1999 (25.1%). Cost of goods sold and research and development expenses increased at a lower rate than sales. Marketing and distribution expenses increased sharply (23%). Overall, marketing and distribution expenses reached 33% of sales (1999: 31% of sales). Research and development expenses were maintained at 14% of sales.

Administration and general overheads in 2000 increased by CHF 384 million to CHF 1.5 billion in 2000. The increase was principally due to a number of exceptional or one-off items such as product withdrawal costs in Consumer Health of CHF 84 million, integration costs for the acquisition of Wesley Jessen of CHF 41 million, increases in provisions for legal and product liabilities and Agribusiness related spin-off costs. Furthermore, 1999 benefited from CHF 76 million of exceptional insurance recoveries.

Margins were retained at 1999 levels at Pharmaceuticals (31%) but declined in all other sectors. At Generics and Animal Health, declines were due to competitive pressures in the market and an increase in investments in research and development. At CIBA Vision and at Consumer Health, marketing and distribution was increased at the expense of operating margins to support the launch of new products.

Sales

The following table sets forth selected sales data for each of the periods indicated.

	Year ended December 31,			
	2000	1999	Change in CHF	Change in local currencies
	(CHF millions)	(CHF millions)	(%)	(%)
Sales				
Pharmaceuticals	17,611	15,275	15	7
Generics	1,938	1,823	6	4
Consumer Health (excluding divested activities)	6,395	5,570	15	7
CIBA Vision	2,085	1,632	28	18
Animal Health	1,083	927	17	9
Sales from ongoing activities	**29,112**	**25,227**	**15**	**8**
Sales from discontinued Agribusiness activities[1]	6,693	7,056	(5)	(11)
Sales from divested Consumer Health activities		182	—	—
Group sales	**35,805**	**32,465**	**10**	**3**

[1] Agribusiness: Crop Protection and Seeds businesses.

Sales from ongoing activities

Sales from ongoing activities increased by 15% (8% in local currencies) to CHF 29.1 billion in 2000 from CHF 25.2 billion in 1999. 44% of sales was generated in the NAFTA region (42% in the United States), 32% in Europe and 24% in the rest of the world. Diovan® was the most important contributor to increased sales in 2000 with sales of CHF 1.2 billion, an increase of CHF 489 million over the year. Strongest sector sales growth was recorded by CIBA Vision, as a result of the launch of Visudyne™ (age-related macular degeneration) and the consolidation of Wesley Jessen for three months. Overall, growth from ongoing activities was driven by a volume increase of 6%. There was less than a 2% benefit from price increases and acquisition effects. The sales performance was supported by a 7% favorable currency effect as the Swiss franc depreciated against the US dollar by an average of 12% and against the yen by 17%.

Pharmaceuticals. Sales increased by 15% in Swiss francs or by 7% in local currencies to CHF 17.6 billion in 2000 from CHF 15.3 billion in 1999. Growth was driven by a good performance in Europe and by an improved performance in the United States. Increased focus on marketing and distribution to support the five key growth drivers Diovan® (hypertension), Lotrel® (hypertension), Lamisil® (fungal infections), Miacalcic® (osteoporosis) and Exelon® (Alzheimer's disease) resulted in superior growth rates in local currencies and in market share gains in their respective market segments. Sandimmun®/Neoral® (transplantation) achieved more than CHF 2 billion of sales for the second year running. Sales in local currencies terms declined by 5%, as the first generic cyclosporin capsules were launched in the US market in May. Sales of this product are expected to decline in the coming years, mainly driven by generic erosion in the US. Voltaren® (antirheumatic) sales continued to come under pressure (−12% in local currencies)

from generic products in the United States and from the launch of a new class of anti-inflammatory drugs (Cox-2 inhibitors). Aredia® (bone metastasis) continued with a strong performance as its sales exceeded CHF 1.1 billion. The follow-up product Zometa® has been launched in Canada and in March 2001 received approval in the EU. Diovan® (hypertension) achieved sales of over CHF 1.2 billion and a growth rate of 55% in local currencies. It is the only product in its class to have demonstrated a positive effect in congestive heart failure. Cibacen® (hypertension) posted 29% growth, driven in particular by the performance of Lotrel® (combination of Cibacen® with a calcium channel blocker). A new direct-to-consumer (DTC) campaign in the United States boosted sales of Lamisil® (fungal infections), for which the share in the onychomycosis segment of the overall market in the United States has been increased by 5.1% to 69.5%. In 2000, Exelon®(Alzheimer's disease) as well as Trileptal® (epilepsy) were launched in the United States contributing to the overall sector sales growth.

Top 20 Pharmaceutical Products—2000

Brands	Therapeutic area	Sales 2000	Change in local currencies
		(CHF millions)	(%)
Sandimmun®/Neoral®	Transplantation, rheumatoid arthritis, psoriasis	2,052	(5)
Voltaren®	Antirheumatic	1,355	(12)
Lamisil®	Fungal infections	1,278	12
Cibacen® /Lotensin®	Hypertension	1,260	29
Diovan®	Hypertension	1,229	55
Aredia®	Oncology (bone metastasis)	1,121	24
Lescol®	Cholesterol reduction	724	(4)
Miacalcic®	Osteoporosis	718	18
Tegretol®	Epilepsy	705	2
Sandostatin®	Acromegaly	663	16
Leponex® /Clozaril®	Schizophrenia	584	(9)
Estraderm®	Hormone replacement	430	7
Nitroderm®	Angina pectoris, congestive heart failure	357	0
Foradil®	Respiratory	332	25
Zaditen®	Asthma, allergy	316	(7)
Sandoglobulin®	Immunodeficiency syndromes	280	(7)
Ritalin®	Attention deficit/hyperactivity disorder	241	(5)
Parlodel®	Parkinson's disease	227	(12)
Exelon®	Alzheimer's disease	202	196
Desferal®	Oncology/hematology	162	(7)

Generics. Sales increased by 6% in Swiss francs or by 4% in local currencies to CHF 1.9 billion from CHF 1.8 billion in 1999. The continuing rise in healthcare expenditures in most countries created a favorable market environment for the increased use of generic pharmaceuticals but also led in some countries to strong price competition within the generics industry. In the United States, Geneva Pharmaceuticals, Inc. achieved strong volume growth and gained market share, but suffered severely from strong price erosion and wholesaler rebates. Our Generics Pharmaceuticals Business (finished pharmaceutical products) achieved sales growth of 8% due to many product launches and the global

introduction of the new generic version of the combination of amoxicillin and clavulanic acid. Our Industrial Business (active pharmaceutical ingredients and biotech substances), experienced continued low prices for bulk antibiotics. Sales growth was achieved by increased volumes and a shift to higher value products.

Consumer Health. Sales increased by 15% in Swiss francs or 7% in local currencies, to CHF 6.4 billion in 2000 from CHF 5.6 billion in 1999. Gerber® sales continued to grow in the United States where market share reached 74% and expansion in Latin America continued. OTC sales grew in particular in the United States with Lamisil® Cream (athlete's foot) and in Europe with Voltaren® Emulgel (anti-inflammatory). Medical Nutrition sales expanded in all segments: in tube feeding products, healthcare food services, clinical supplements and medical devices, with marked expansion in Europe.

CIBA Vision. Sales increased by 28% in Swiss francs, or 18% in local currencies, to CHF 2.1 billion in 2000, (including Wesley Jessen fourth quarter sales of CHF 106 million), from CHF 1.6 billion in 1999. Apart from the impact of the Wesley Jessen acquisition, sales were driven by the strong performance in ophthalmic drugs owing to the launches of Visudyne™ (age-related macular degeneration) and Rescula™ (glaucoma). Visudyne™ achieved worldwide sales of CHF 169 million, only 8 months after its first introduction to the US market. Strong sales growth was also generated with the lens business, particularly with the new generation Focus® contact lenses, which includes Focus® DAILIES®, the daily disposable lenses. Sales of lens care products continued to suffer in an overall declining market.

Animal Health. Sales increased by 17% in Swiss francs, or 9% in local currencies, to CHF 1.1 billion in 2000 from CHF 927 million in 1999. In the companion animal business, the flea product Program® was under significant competitive pressure, while Interceptor® against heartworms and Fortekor® against heart failure in dogs achieved excellent growth. The farm animal business grew overall, driven by the anti-infective Tiamutin®, which has become one of the top three Animal Health sector brands.

Discontinued Agribusiness sector and divested Consumer Health activities. Agribusiness is only included in our Group figures up to its spin-off on November 6, 2000. In 1999, certain divested Consumer Health activities were included in sales up to their respective divestment dates in the first half of 1999.

Expenses

The following table sets forth our operating expenses for each of the periods indicated.

	Discontinued/ divested activities (CHF millions)	Ongoing Activities (CHF millions)	Group (CHF millions)
2000			
Cost of goods sold	(2,926)	(7,316)	(10,242)
Marketing and distribution	(1,389)	(9,556)	(10,945)
Research and development	(646)	(4,011)	(4,657)
Administration and general overheads	(576)	(1,502)	(2,078)
1999			
Cost of goods sold	(3,334)	(6,488)	(9,822)
Marketing and distribution	(1,775)	(7,786)	(9,561)
Research and development	(731)	(3,515)	(4,246)
Administration and general overheads	(376)	(1,117)	(1,493)

The following table sets forth our ongoing operating expenses for each of the periods indicated.

	2000	1999	Change
	(CHF millions)	(CHF millions)	(%)
Sales from ongoing activities	**29,112**	**25,227**	**15**
Cost of goods sold	(7,316)	(6,488)	(13)
Marketing and distribution	(9,556)	(7,786)	(23)
Research and development	(4,011)	(3,515)	(14)
Administration and general overheads	(1,502)	(1,117)	(34)
Operating income from ongoing activities	**6,727**	**6,321**	**6**

Cost of goods sold

Cost of goods sold for ongoing activities decreased as a percentage of sales from 25.7% in 1999 to 25.1% in 2000. This was mainly due to productivity increases and the positive currency effect of the stronger US dollar and Japanese yen against the Swiss franc.

Marketing and distribution

Marketing and distribution expenses for ongoing activities as a percentage of sales increased from 30.9% in 1999 to 32.8% in 2000 as significant investments were made in field force and promotion activities to support key products, such as Diovan® and Exelon® in Pharmaceuticals and *Focus® DAILIES®* in CIBA Vision. Within marketing and distribution, further resources were allocated from low priority products to high priority products.

Research and development

Research and development expenses for ongoing activities as a percentage of sales were 13.8% in 2000 compared with 13.9% in 1999. This reflects the continuing heavy emphasis on development in Pharmaceuticals, where numerous key projects are in late phase clinical development or have been filed for registration. Increases in research and development expenses were also recorded in most other sectors, in order to support the development of new products.

Administration and general overheads

As a percentage of sales from ongoing activities, there was an increase in administration and general overheads to 5.2% in 2000 from 4.4% in 1999. The increase was due to a number of exceptional or one-off items such as the Wesley Jessen related restructuring costs of CHF 41 million, the recall of Consumer Health products containing phenylpropanolamine (PPA) of CHF 84 million, additional Generics litigation expenses and Agribusiness related spin-off costs. Furthermore, 1999 benefited from non-recurring income of CHF 76 million resulting from the settlement of environmental litigation with insurance companies.

Operating Income

The following table sets forth our operating income for the years presented.

	2000	1999	Change
	(CHF millions)	(CHF millions)	(%)
Pharmaceuticals	5,403	4,676	16
Generics	227	347	(35)
Consumer Health (excluding divested activities)	824	807	2
CIBA Vision	158	250	(37)
Animal Health	179	216	(17)
Corporate and other expenses	(64)	25	
Operating income from ongoing activities	**6,727**	**6,321**	**6**
Operating income from discontinued Agribusiness activities[1]	1,156	647	79
Gains on Consumer Health divestments and related operating income		375	
Group operating income	**7,883**	**7,343**	**7**

[1] Agribusiness: Crop Protection and Seeds businesses.

Operating income from ongoing activities

The operating margin on ongoing activities was 23.1% of sales, a decrease of 2 percentage points compared with 1999 (25.1%). Margins remained flat in Pharmaceuticals as a result of increased marketing and distribution expenditures to support key new products. Strong margin declines were seen in Generics and Animal Health owing to competitive pressures in the US market and an increase in research and development spending. CIBA Vision's margin was affected by one-time acquisition related charges of CHF 110 million. Furthermore, in both CIBA Vision and Consumer Health, marketing and distribution were also increased at the expense of operating margins to support the launch of new products.

Pharmaceuticals. Operating income increased 16% to CHF 5.4 billion from CHF 4.7 billion in 1999. Our operating margin was maintained at 31% despite the increase in marketing and distribution expense from 30% to 32% of sales as field forces and promotion activities were increased in preparation for major product launches. Research and development expenses on the other hand were maintained at over 18% of sales. Further improvements were achieved in reducing the cost of goods sold and administration and general overheads as a percentage of sales. The impact of a CHF 42 million restructuring charge required primarily in connection with the sale of the Summit site in the United States was substantially compensated by CHF 30 million released from other restructuring provisions as settlements could be made at amounts less than initially anticipated.

Generics. Generics had an operating income of CHF 227 million, a decrease of 35% compared with CHF 347 million in the prior year. The operating margin suffered a decline from 19.0% to 11.7% due to several factors. These included increased price pressure especially in the United States; some US product launches had to be postponed due to changes in the US regulatory environment; costs related to legal actions in the United States and finally investments in marketing and distribution as well as in research and development were stepped up. With these investments in marketing and distribution and research and development, mid-term competitiveness should be strengthened, especially in the United States where research and development expenses were increased from 7% to 9% of sales.

Consumer Health. Operating income on a comparable basis increased by 2% from CHF 807 million in 1999 to CHF 824 million despite additional marketing and distribution expenses to support new initiatives. Operating margins, however, fell from 14.5% to 12.9%. Results were also negatively affected by a one-time expense of CHF 84 million relating to the voluntary withdrawal of products containing phenylpropanolamine (PPA) in response to FDA recommendations. Research and development expense remained at 3% of sales, while general and administration costs declined slightly over the year when compared to sales. The cost of goods sold remained stable as a percentage of sales.

CIBA Vision. Operating income declined from CHF 250 million in 1999 to CHF 158 million (−37%) principally due to the incurrence of one-time costs for the integration of Wesley Jessen of CHF 110 million (inventory adjustments of CHF 69 million and restructuring charges of CHF 41 million) and one-time costs related to the transfer of the Ophthalmics business to the Pharmaceuticals sector from January 1, 2001. Additionally, productivity improvements were more than offset by increased marketing and distribution expenses in support of Visudyne™ (age-related macular degeneration) and Rescula™ (glaucoma), primarily in the United States and in Europe. Research and development expenses increased by 4% representing 7.2% of sales. As a result of these factors, the operating margin dropped from 15.3% in 1999 to 7.6% in 2000.

Animal Health. Operating income fell by 17% from CHF 216 million in 1999 to CHF 179 million and the operating margin declined from 23.3% in 1999 to 16.5% in 2000. Although the sector showed good sales growth, 2000 operating income suffered from major changes in the product mix and one-time expenses due to the Vericore acquisition; the full operational separation in the wake of the Agribusiness sector spin-off; the implementation of a new US distribution strategy and an increase in research and development expenditure to 8.1% of sales.

Corporate and Other Expenses. Corporate and other expenses, which include the costs of corporate and country management, were partially offset by employee benefit, share and share option plan charges levied on the operating companies. Corporate and other expenses were CHF 64 million in 2000 compared with a gain in 1999 of CHF 25 million. Also included in 2000 are one-time costs such as expenses incurred as a result of the Agribusiness sector spin-off, whereas 1999 included the positive impact of environmental litigation settlements of CHF 76 million and releases from merger-related restructuring provisions due to settlements at less than initially anticipated amounts of CHF 121 million.

Operating income from discontinued Agribusiness activities. The Agribusiness sector is only included for the period up to its spin-off on November 6, 2000. During 2000, the Agribusiness sector experienced a sharp recovery in performance so that the operating income generated in the period consolidated in 2000 amounted to CHF 1.2 billion compared with only CHF 647 million for the whole of 1999. Improved performance was due to generally more favorable market conditions and the effects of cost control and restructuring measures.

Net Income

The following tables set forth selected income statement data for the periods indicated.

	2000 (CHF millions)	1999 (CHF millions)	Change (%)
Group operating income	**7,883**	**7,343**	**7**
Income from associated companies	98	383	(74)
Financial income, net	1,091	793	38
Income before taxes and minority interests	**9,072**	**8,519**	**6**
Taxes	(1,820)	(1,833)	1
Income before minority interests	**7,252**	**6,686**	**8**
Minority interests	(42)	(27)	56
Net income	**7,210**	**6,659**	**8**

	Discontinued and divested activities[1] (CHF millions)	Ongoing activities (CHF millions)	Group (CHF millions)
2000			
Operating income	**1,156**	**6,727**	**7,883**
Income from associated companies	1	97	98
Financial income, net	(125)	1,216	1,091
Taxes	(316)	(1,504)	(1,820)
Minority interests	(17)	(25)	(42)
Net income	**699**	**6,511**	**7,210**
1999			
Operating income	**1,022**	**6,321**	**7,343**
Income from associated companies	7	376	383
Financial income, net	(197)	990	793
Taxes	(207)	(1,626)	(1,833)
Minority interests	(7)	(20)	(27)
Net income	**618**	**6,041**	**6,659**

[1] Agribusiness: Crop Protection and Seeds businesses and divested Consumer Health activities.